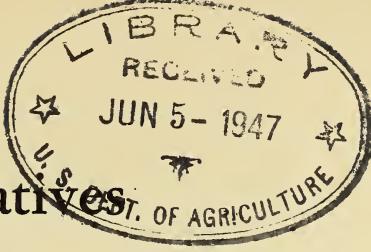


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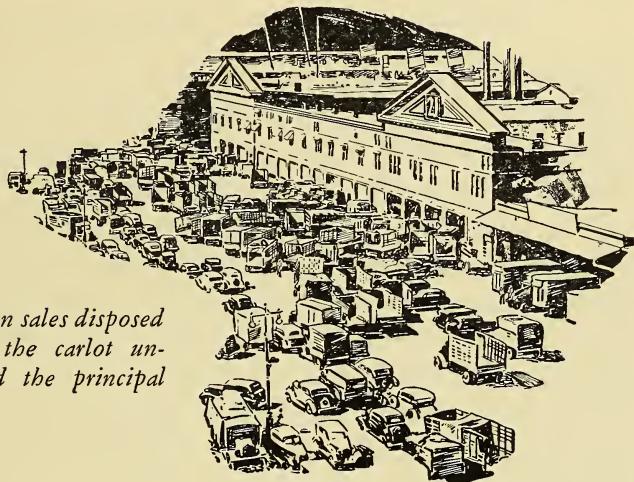


How Farmers' Cooperatives

use TERMINAL

FRUIT AUCTIONS

In New York, auction sales disposed of 83 percent of the carlot unloads of citrus and the principal deciduous fruits.



COOPERATIVE associations are important users of the auction method of selling in terminal markets. Almost one-half of all fruit and vegetables sold through the auctions, exclusive of bananas, is handled for cooperatives.

The auctions themselves are important parts of the distribution machinery in large markets. In 1937 their sales in 12 markets, exclusive of bananas, totaled 102,128 cars with a value of more than \$150,000,000. These sales included about four-fifths of the citrus unloaded at those markets, and 48 percent of the deciduous fruit. The auction method of selling fruits and produce is thus well established, and in New York City dates back as early as 1827. It is a method of sale which in no way infers either forced sale, low prices, or inferior goods.

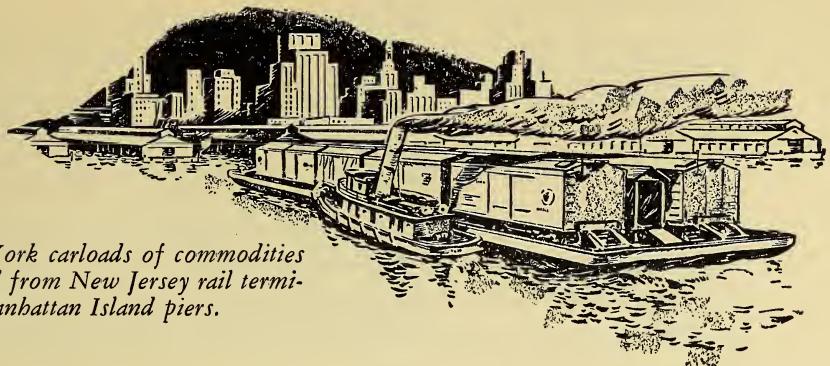
Terminal auction companies are essentially service organizations, and their use by the cooperatives is to gain the benefit of the services rendered. One of their primary services is the extension of credit to buyers, the auction companies being in a peculiarly strong position to hold credit losses to a minimum. Their principal service, however, is in providing a marketing medium which concentrates through one channel a large percentage of the entire demand of their market areas, and which furnishes a means of rapid and efficient selling from the standpoints of both prices obtained and cost to the shipper.

Auctions Important as Distributing Agencies

Auctions are a magnet to the buying trade through their handling of substantial proportions of the total market offerings of various commodities. The extent to which they offer this concentration of volume is indicated by a recent study by the cooperative research and service division of the Farm Credit Administration. The figures show that in Boston auction sales accounted for 60 percent of the total carlot unloads of citrus and the principal deciduous fruits. In Chicago the proportion was 55 percent; in New York, 83 percent; and in Philadelphia, 80 percent. The terminal auctions also served as important sources of supply for out-of-town buyers, according to the same study. In three of the larger auctions the proportion of total sales billed direct to out-of-town customers 25 miles or more distant from the auction market ranged from 4.5 to 18.5 percent. A similar figure for one of the smaller markets was over 30 percent.

Auctions are a magnet to the buying trade through their concentration of large volume.





In New York carloads of commodities are ferried from New Jersey rail terminals to Manhattan Island piers.

The importance and value of the auctions as distributing agencies can be judged further by the answering of three specific questions: (1) What is the relative importance of the different classes of purchasers? (2) How many of the commodities sold at auction do individual purchasers buy? (3) What amounts do they buy?

To the first question it may be said that the buyers are for the most part jobbers, with whom 70 percent of the business of auction companies is done. Auction billings direct to chain stores are about 10 percent and to brokers who buy for others about 8 percent. The remaining 12 percent are divided among the motortruck jobbers, specialty fruit and vegetable stores, independent retail stores, and others.

As to commodities purchased, the majority of auction buyers take full advantage of the time and effort required to inspect auction offerings and to attend sales by buying a number of items. During a 1-week period, 60 percent of the dollar sales of 5 different commodities handled by 10 auction companies were made to purchasers who bought all 5 commodities. These 5 commodities, in turn, made up over 91 percent of the total sales of the auction companies during the week.

As for volume, most auction buyers do not purchase the equivalent of a carload, if each buyer's weekly purchases of important commodities are considered separately. Each purchaser at auction, for the most part, buys a limited number of sizes of oranges and apples to meet the requirements of his particular trade. For example, according to the study previously referred to, 65 percent of the buyers of California Navel oranges each bought four sizes or less. From the standpoint of the shipping organization, cooperative or private, it is apparent that the

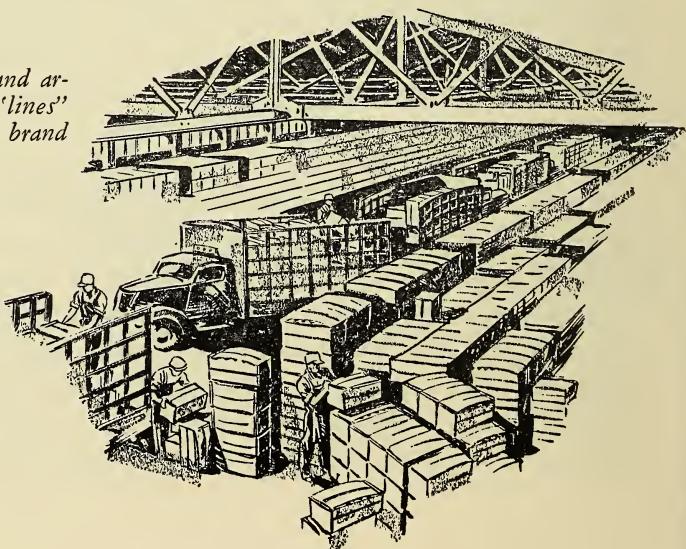
auction outlet makes it possible to reach a group of buyers who could not be served directly if the sales unit were the carload, and to meet their individual grade and size requirement.

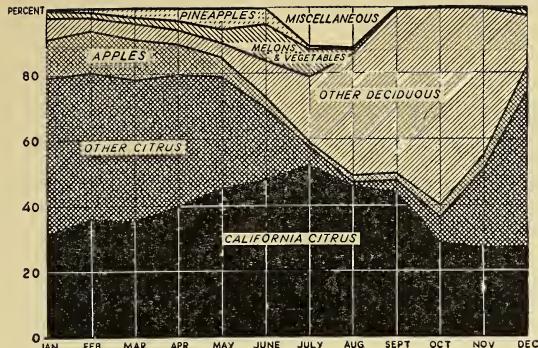
Auctions Also Serve as Price Indicators

Aside from the services of the auctions in providing important marketing channels, and in extending credit to buyers, they have a generally recognized function in serving as price indicators. Because of their importance from a volume standpoint and because of the publicity given to results of sales at auction, auction prices are used by sales managements of cooperative associations and private shippers as a basis for price quotations in private-sale transactions in markets where auctions are located and in markets both near to and at a distance from auction centers.

On the basis of studies restricted to one important commodity—California Valencia oranges—the conclusion was reached that monthly and weekly auction prices were reasonably satisfactory measures of price both at auction and at private sale. They are not, however, final and complete indicators of the price at which total offerings of a commodity can be sold in all markets. Competent sales managements, in determining price quotations in private-sale transactions, must take into account variations in demand-and-supply conditions in individual markets, differentials in price for various brands, grades, and sizes, the

Samples are sorted and arranged in orderly "lines" according to variety, brand or grade, and size.





Volume of the different fruits and vegetables handled varies according to season. This chart shows the percentages by months for seven auction companies in 1935.

condition and quality of the commodity, and the effect at times upon auction average prices of off-condition shipments diverted to auction from other markets.

In using the auction, control of supplies to be sold at auction is necessary if price fluctuations are to be held within reasonable limits. The necessity for this control of supply in both auction and private-sale markets is recognized and exercised by capable sales managers insofar as practicable in order that violent price fluctuations may be avoided. The necessity for control is particularly important in the case of auctions because of the extent to which auction prices are employed as a basis for price quotations in private-sale transactions. Sales management charged with the responsibility of selling large volumes have found it necessary in order to obtain the highest possible returns to keep all markets, both auction and nonauction, on as nearly a uniform price level as practicable. This policy implies that supplies will be placed on the various markets in a manner which will result in the maintenance of the same price level in all markets. Practical marketing considerations require at present that this procedure be followed insofar as possible.

Successful Use Depends on Certain Requirements

As in any other method of marketing, the most successful use of the auctions depends upon meeting certain requirements. Important requirements for successful selling of a commodity at auction are uniform grading and packing in standardized containers, regularity of offerings during the shipping season, and an adequate supply of the commodity.

Some shippers in position to meet these requirements have made extensive use of terminal auctions.

Cooperatives and other shippers using the auction forward their products to their own representatives, known as receivers. These may be salaried employees of the shipping organization or may be agents retained on a commission or unit-charge basis. The shipper's representative makes sales arrangements with the auction company and acts for the shipper at the sale.

Goods usually arrive by rail at a warehouse owned by the railroad company. In New York, carloads of commodities to be sold at auction on Manhattan Island are ferried on car floats from the New Jersey rail terminals to the piers where sale takes place. For commodities arriving by boat, samples are taken and arranged for inspection on the piers where rail receipts are unloaded.

Packages are sorted and arranged in orderly rows and tiers known as "lines" according to variety, brand or grade, and size. Samples are opened for inspection by buyers.

Printed catalogs are prepared for each sale and are available to buyers when they come to examine the auction offerings. These catalogs list the receiver's name, variety of fruit, brands, individual lines, and number of packages in each line. Each buyer notes in his catalog the lines in which he is interested on the basis of his inspection, and carries it to the auction room where the auctioneer uses a similar catalog as a program for selling.

Fairness Maintained to Shippers and Buyers

Sale at auction does not imply a warranty that all of a single line is the same as the open sample. Sale is on an "as is" basis. Buyers ordinarily may open other packages, but if they avail themselves of this privilege the packages must be restored to their original condition after inspection. Although there are occasional complaints concerning receivers who "dress samples" by removing decayed or otherwise unattractive fruit, it is the aim of the auction companies to prevent this practice. It is discouraged by the active efforts of the auction company through close supervision, and by the fact that buyers may offer lower prices for fruit handled by the receivers known to engage in it.

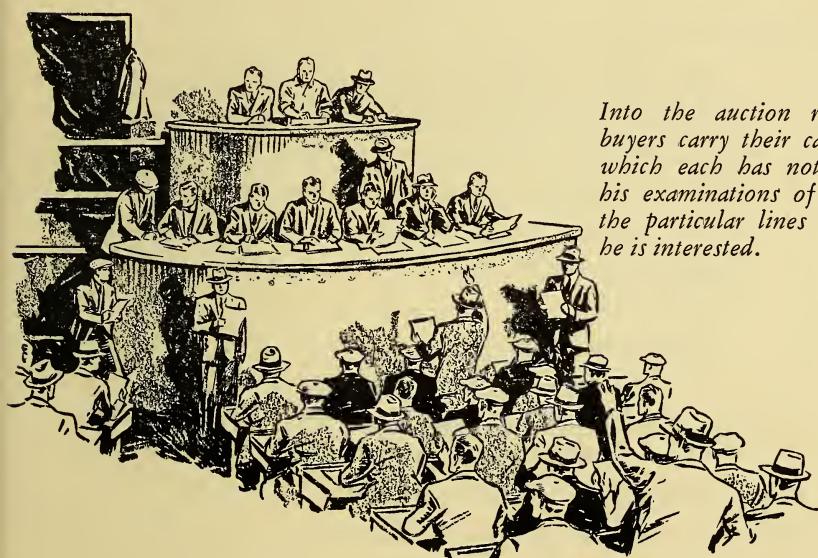
Selling of commodities is at open sale where each line goes to the highest bidder. Selling is subject to definite regulations and practices as to minimum quantities. There are systematic and carefully worked out rotations of the order in which offerings of the various receivers are placed on sale. There are limitations as to the division of a buyer's purchases with other buyers, and numerous regulations designed to maintain competition between buyers and general fairness to shippers and buyers. Selling proceeds at a rapid rate, necessary if large volumes of products are to be moved fast enough to conserve buyers' time and to maintain their interest.

The usual auction selling charges range between $1\frac{1}{2}$ and 2 percent of the sales value. There are usually additional charges by carriers or auction companies for unloading and other physical handling charges incurred during the movement of commodities through the auction shed.

Exclusive Use of Auctions a Question

The larger cooperative associations which market through terminal auctions use for the most part no other method of sale at those markets. There are, however, some exceptions because cooperative sales management are not in agreement as to whether it is the better procedure to restrict sales operations on a single market to a single method of sale.

One of the unanswered problems, therefore, is whether cooperatives should sell at private sale to large-scale purchasers in markets where



Into the auction room the buyers carry their catalogs in which each has noted, from his examinations of samples, the particular lines in which he is interested.

other buyers must obtain their supplies from the same associations through the auction or from a carlot buyer. There are several points which have a bearing on this question.

The withdrawal of large-scale purchasers from the auctions probably would have an undesirable effect upon the auctions as indicators of price, as the adjustment of supplies to the reduced proportion of demand at auction would be made more difficult. Furthermore, with increased quantities moving at private sale, assembling of price information by sellers would be increasingly difficult and the value of the auction price as a basis for other prices would be materially reduced.

If increased quantities of any commodity now sold at auction are to be diverted through private sale, sellers also must be prepared to assume increased credit risks.

The trend of auction company ownership is toward trade control. Cooperatives have not become owners of stock in auction companies, and there are important reasons why cooperatives perhaps should not embark on such a program. Management of jointly controlled enterprises in terminal markets would involve important and difficult problems of cooperative business administration; problems in the fields of extending and supervising credit would be involved, and the extent to which private or nonstockholding shippers would support a cooperatively owned or controlled auction would be a problem of first significance.

This leaflet is condensed from Bulletin 29,
"Terminal Fruit Auctions as Marketing Agencies for Farmers' Cooperatives," by Kelsey B. Gardner, principal agricultural economist. Copies of this larger publication with more detailed information may be obtained, while available, from—

*Information and Extension Division
Farm Credit Administration
United States Department of Agriculture
Washington, D. C.*